The bimetallic question

London

[1889?]

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No. 4

THE BIMETALLIC QUESTION.

DEPUTATION

TO

THE PRIME MINISTER

AND TO THE

CHANCELLOR OF THE EXCHEQUER,

MAY 30th, 1889.

LIST OF MEMBERS OF DEPUTATION

AND

STATEMENT OF CASE.

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THE BIMETALLIC QUESTION.

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STATEMENT

(FORWARDED)

TO THE MARQUESS OF SALISBURY, K.G., AND THE RIGHT HON. THE CHANCELLOR OF THE EXCHEQUER.

THE object of this Deputation is to urge on Her Majesty's Government the following considerations:—

The fall of prices which began to make itself felt about 1875 was at first supposed to mark one of those cycles of depression which men had been taught to expect, but the monetary conferences in 1878 and 1881 showed an increasing belief that the cause lay deeper, and that the adoption of a Gold Standard by Germany, and the suspension of silver coinage in France, had contributed in no small degree to the disorder. The Royal Commission appointed to enquire into the depression of trade and industry in 1885 unanimously affirmed the existence of such depression, referring it to many other causes, all no doubt contributory, but of themselves insufficient to account for the changes since 1875. Accordingly in their third Report the Commissioners point out the great significance of the currency question, on which they recommend a separate investigation. In consequence of their recommendation the Gold and Silver Commission was appointed in 1886, which Commission reported unanimously both as to the existence of the evil, and as to the efficacy of the proposed remedy, if an International Agreement on a Gold and Silver Standard could be arrived at, half the members desiring immediate action, and the other half shrinking from so decisive a recommendation.

It is hardly necessary to show that the fall of gold prices of commodities by whatever cause produced is but an alternative expression for the appreciation of gold, and that if anything had happened to make gold scarce in proportion to the demand for it, this of itself and of necessity would be a cause of the fall of prices. John Stuart Mill writes: "That an increase of the quantity of money raises prices and a diminution lowers them, is the most elementary proposition in the theory of currency, and without it we should have no key to any of the others," and it is impossible to question that currency legislation, inaugurated by Germany in 1873, is of itself sufficient to account for a considerable contraction of the amount of the legal tender money in European countries, which contraction might be expected to disclose itself in the lowering everywhere of the level of prices. For previous to 1873 all the gold and all the silver produced by the mines of the world were permitted to come freely into the mints of France and certain other continental nations, to be there coined at a fixed ratio into legal tender money; the foreign exchanges were balanced by payments either of silver or gold; did Great Britain owe Germany or France a trade balance, such balance could be and was liquidated by the shipment of silver bullion. While professedly using only the one metal, gold, for the purposes of legal tender, Great Britain was yet in effect scarcely less bimetallic than France, seeing that any silver bullion coming to London could be taken by our merchants to the French mint to be coined free of charge, and as such coin not in France only, but in all the countries forming the Latin monetary union, was received in payment whether of revenue or of other debts, any $15\frac{1}{2}$ ounces of silver in London was always saleable for an ounce of gold, and silver had come to be looked upon as the monetary equivalent of gold—as not less available than gold

for all payments whether great or small. Thus the statutory limitation of the legal tender of silver in Great Britain was before 1873 wholly inoperative from a commercial standpoint. It is not necessary therefore to consider whether or not the currency conditions of Great Britain were healthier during the long period of bimetallism, which preceded Lord Liverpool's change of system early in this century, we only require to contrast the general conditions of health before 1873 with the years since 1873. As a matter of fact had Lord Liverpool's legislation stood alone in Europe—had that legislation not been supplemented by the violent change of standard by Germany in 1873, and by the final closure of the French mint to silver in 1875, the question of bimetallism in this country might never have been raised, because in England as elsewhere silver was as good as gold, being directly interchangeable for gold at a ratio of 1 to $15\frac{1}{2}$. While silver could not be actually minted either in London or Lyons, yet the Paris mint was always open equally to the silver of the London or of the Lyons merchant.

We are justified therefore in the assertion that—

(1) Since 1873, Great Britain, Europe, and the whole world have found themselves confronted with a radical alteration in the system of metallic currency;

(2) That in the history of the world we have no previous experience to guide us as to the effect likely to follow the closing of every mint in Europe to the free coinage of legal tender silver;

(3) That the experience of the last 15 years is not of such a nature as to satisfy a disinterested observer that this new departure—this new experiment in currency legislation—has anything whatever to recommend it, excepting its novelty.

That the demonetisation of silver has reduced prices in gold using countries is admitted. If it be an honest public

policy to lower prices by the exclusion of one of the money metals, at what point are we to stop? Clearly this method of cheapening commodities through legislation might require us with equal propriety to further contract the currency by limiting or suspending the coinage of gold also.

We have thought it advisable to dwell at some length on the fact that the present currency system of England, and of Europe, can only be said to date from 1873, the year of the closing of the French Mints to silver; and it is only since that time that we have been confronted with those difficulties which bimetallists desire to remove. A sudden depression of the general level of prices, the fixed charges and debts of the community remaining unreduced, has resulted in the loss of a portion of their capital by the producing classes of the community, in a diminution of profits generally, in the uncertain employment of the working classes, and in widespread economic disturbance.

With regard to the wage-earning classes it is a significant fact that though from 1850 to 1875 their condition had improved continuously in a marked degree, yet since the latter date (a date coincident with the first effects of the demonetisation of silver) not only has this improvement been arrested, but wages in many trades have been reduced, and exceptional irregularity of employment in nearly every branch of industry has been experienced.

The disturbance of our trade with the silver using communities of the East since the disappearance of a fixed par of exchange between gold and silver was recognised by every member of the Royal Commission. Reference is made in the Report of the Currency Commission to the enormous increase of trade in late years between silver using countries to the exclusion of countries using a gold standard. No final opinion was expressed by the Commission on this subject, as

a Committee of the Manchester Chamber of Commerce had been appointed "to examine as to the causes and circumstances which have enabled the Bombay spinners to supersede those of Lancashire," especially in cotton yarn suitable for export to China and Japan. The Report which was adopted by a Special Meeting of the Chamber, declares that "*the principal cause which has enabled Bombay spinners to supersede those of Lancashire in exporting yarn to China and Japan, is the great fall in Eastern exchange since* 1873."

It can hardly be disputed that a thirty per cent. reduction in the gold value, whether of the rupee or the tael, must have embarrassed our trade with the East to an extent not easily exaggerated. To reduce by thirty per cent. the purchasing power in Europe of all the accumulated silver of Asia—the money of two-thirds of the human race—must mean either the reduction of our prices or the contraction of our business. For it is to be remembered, that notwithstanding the great fall in the gold price of silver, yet prices in silver countries have not risen. If these prices had risen—if our Indian customers could sell their labour or their produce for more rupees since the fall in the price of silver, then, also, they could afford to give more rupees for the cotton manufactures or hardware they buy from us. That there has, however, been no such adjustment of prices in India is conclusive from the evidence taken before the two Royal Commissions. This remarkable anomaly, from whatever cause it arises, has so far prevented any adjustment of prices resulting from the expansion of the currencies of Asia—an adjustment promised as the natural remedy for these exchange troubles by almost every writer on political economy.

We believe that the recognition is universal that at some point the appreciation of gold and the fall in the price of silver would require the consideration of the legislatures

everywhere. The question then is chiefly whether the time has already arrived. The Board of Trade returns show that since 1887 our export of gold from Great Britain has largely exceeded our import; nor do these returns take into account the very large number of sovereigns melted down daily for use in the arts and manufactures; so that while our population and production are increasing, our metallic currency is contracting. It will hardly be disputed that such conditions cannot safely be disregarded by the legislature. The State has undertaken to assume the control of the currency,—to declare in what metal or metals it will receive payments of revenue, and under what conditions it will permit coinage at its mints. The State has undertaken to declare the standard for all deferred payments. Clearly the assumption of such responsibilities must be held to imply that the State will, at least, do what it can to prevent the standard being violently altered by extraneous legislation.

Our recent experience also of the fall in the price of silver does not encourage the belief that under continued pressure of hostile legislation that fall has at all spent its force. After every fresh fall in the gold price of silver, the comforting assurance has been given that the price might now at last be regarded as having sunk to an irreducible minimum. But the facts still continue to contradict the theories, and when the present position of silver in America comes to be considered, the only prospect of warding off a further sharp fall in exchange appears to lie in the direction of remedial legislation.

In view of the recent Report of the Royal Commission on Currency, attention may be fairly asked to the altered position of parties as to this question. The entire Commission is in agreement that bimetallism is practicable by an international arrangement. The only point therefore really at

issue is whether an arrangement can be secured, and this point is not even reached until an International Convention has agreed to meet.

We have thus far dwelt upon the general embarassment to trade and industry, caused by the currency dislocation already experienced. But if in the past fifteen years the disturbance in the ratio of value between the two metals has been on a scale wholly unexampled in economic history, what is the prospect of the future so far as we can read it? Even if we were in a position to admit that traders have adjusted their operations to suit the present conditions of exchange, is there not in the present position of the silver question the probability that, failing an international agreement, we are again in full view of such a further disturbance as would amount to a monetary revolution? We allude to the present condition of the currency in the United States. In 1878 the United States Congress passed a measure known as the Bland Act, which requires the purchase and coinage of at least two million dollars worth of silver monthly. This was evidently a temporary measure to serve until the question of the future position of silver could be decided by international concert. It was pointed out by the opponents of the Act that even a country so commercially eminent as the United States had no power permanently to retain the two legal tenders in her currency, unless silver as money received some support abroad. On the other hand the advocates of the Bland Bill pointed to the figures of the foreign trade of the country—to the fact that her exports being more than fifty per cent. in excess of her imports (694 millions to 437 millions) there was every prospect that America could continue both to coin silver, and still to retain her gold; the more so that there was a tendency to currency contraction in the country in consequence of the reduction of the National Debt, which debt is the basis of

the note issues of the National Banks. But the continued coinage of silver has now produced its inevitable consequence. The addition to the American currency of some sixty-four millions sterling of legal tender silver, has given a moderate support to prices in America, but in America only, while prices in Europe during these ten years have fallen with unusual rapidity. Hence it happens that the imports of the United States have swelled year after year out of all proportion to the increase in her exports, this condition culminating last year *in an actual excess of imports over exports.* The Silver Crisis then in the United States so long foretold would seem to be at last at hand; either she must suspend silver coinage and thus precipitate a further great fall in the price of silver, or she must consent to lose her gold currency, which has been accumulated to the satisfaction of the nation.

Thus it is, that the absence of an international agreement as to this question—an agreement expressly urged by the United States and other countries at more than one Conference, has brought Great Britain to this point at last. The financial stability of the Indian Empire, the leading industries of the United Kingdom, the welfare of the agricultural classes in these islands is to-day at the mercy of any casual political combination at Washington which, by securing the suspension of the Bland Act, would cause a further fall of unknown dimensions in the price of silver.

For these and other considerations we urge upon Her Majesty's Government the importance of consulting the chief Commercial Nations as to their readiness to join with the United Kingdom in a conference for the purpose of considering whether, and how far, a bimetallic system can be re-established by International Agreement.

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